GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3294
ANSWERED ON:12.12.2014
FORWARD TRADING
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Will the Minister of FINANCE be pleased to state:

(a) the extent by which future/forward trading is responsible for inflation;

(b) whether the Government proposes to set up any regulatory authority to check such future/forward trading and if so, the details thereof;

(c) the aims of the Forward Trading Commission and the extent to which the said commission has been successful in achieving its aims along with the details thereof;

(d) whether the Government proposes to change the present system of business through the forward trading; and

(e) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a): There is no evidence to support the contention that futures / forward trading is responsible for inflation. The commodity futures market is a mechanism for price discovery and price risk management. The price of any commodity is determined by actual demand and supply position in the market. The futures market merely discovers the likely prices of a given commodity at future points of time depending on the expectations of supply and demand. Besides, many commodities such as onion, fruits, vegetables (other than potato), eggs, fish or other perishables are not traded in the futures market.

Several studies/ reports, such as the Abhijit Sen Committee Report (2008) and the Annual Report of the Reserve Bank of India (2009-10) have concluded that forward/ futures trading is not responsible for inflation. An independent study in 2012 by Dr. Ashok Gulati has also reported that during the period from 1995-96 to December 2012, three factors explain the price rise (inflation) in the Food Articles Index (FAI), in India i.e. fiscal deficit, global food inflation and domestic farm wages.

(b): The Forward Markets Commission, set up in 1953 under the provisions of the Forward Contracts (Regulation) Act, 1952 (FCRA), regulate forward and futures trading in commodities. There is no proposal for setting up any other regulatory authority for regulating future/ forward trading, under the consideration of the Government.

(c): As per the provision of FCRA, functions of the Forward Markets Commission (FMC) are as follows:

(i) To advise the Central Government in respect of the recognition or the withdrawal of recognition from any association or in respect of any other matter arising out of the administration of the Forward Contracts (Regulation) Act, 1952.

(ii) To keep forward markets under observation and to take such action in relation to them, as it may consider necessary, in exercise of the powers assigned to it by or under the Act.

(iii) To collect and whenever the Commission thinks it necessary, to publish information regarding the trading conditions in respect of goods to which any of the provisions of the Act is made applicable, including information regarding supply, demand and prices, and to submit to the Central Government, periodical reports on the working of forward markets relating to such goods;

(iv) To make recommendations generally with a view to improving the organization and working of forward markets;

(v) To undertake the inspection of the accounts and other documents of any recognized association or registered association or any member of such association whenever it considers it necessary.

The FMC has taken several initiatives for improving price discovery and price risk management through regulatory and developmental measures. The commodity futures market has made progress in terms of trading volumes, robustness of clearing and settlement, bouquets of products available for trading and governance of exchanges. However, an analysis of futures trading data by a committee set up by Ministry of Finance (which submitted its report in April, 2014), it was observed that futures market is fairing relatively well on price discovery and relatively poor on hedging effectiveness. It has suggested that a diverse array of firms such as banks, foreign entities, other financial institutions should be permitted to participate in the commodity futures market which would improve liquidity

and hedging effectiveness.

(d) & (e): No Sir. Forward trading has been conducted in the past, on the platform of the regional exchanges and regulated under the provisions of the FCRA. FMC has recently approved trading in delivery-based forward contracts in Sugar and Maize on the platform of a national level exchange. Forward trading in agricultural commodities through the exchange platform facilitates participation of physical market players and much better price discovery in the market. This is also expected to gradually reduce the cost of intermediation in the physical market which would help both the sellers and buyers of these commodities.